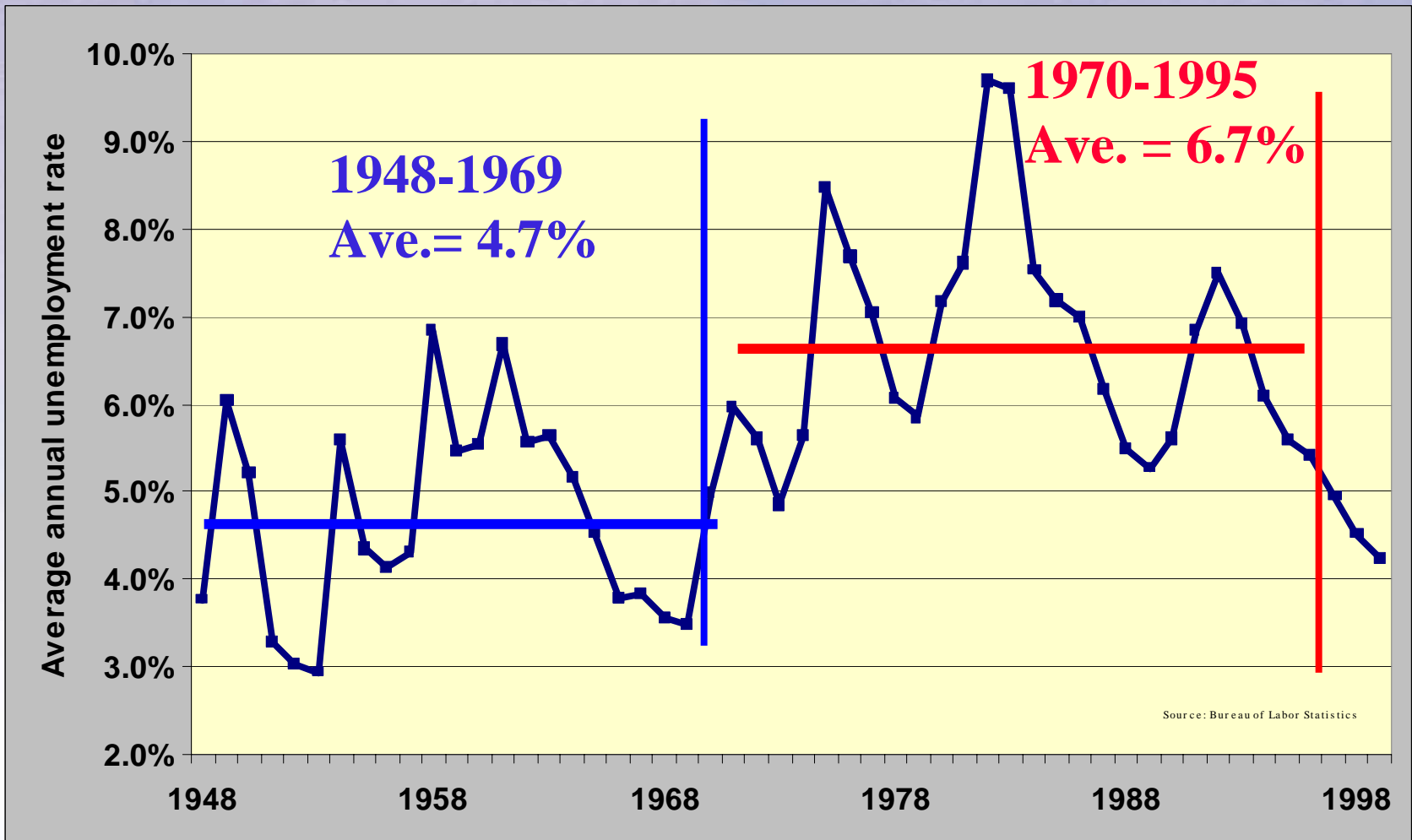


Average Annual Unemployment, 1948-1999



Worker Dearth's Two Faces

- **Quantitative:**

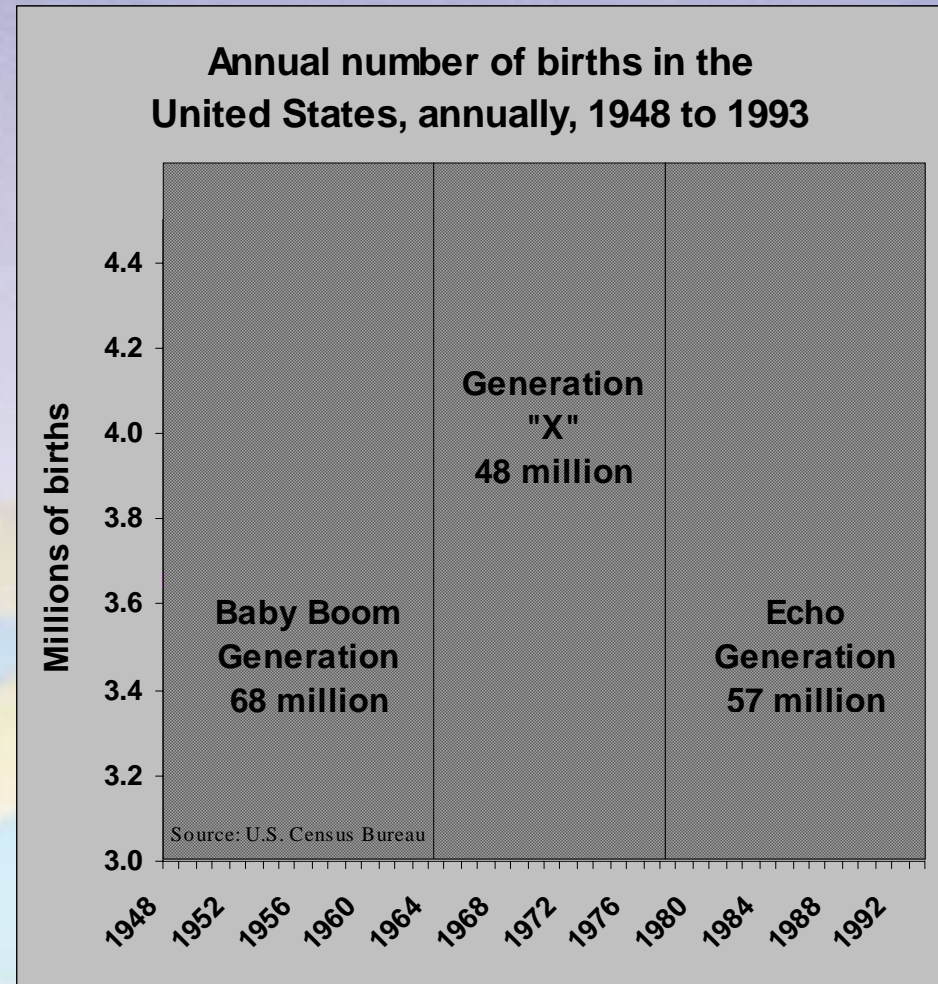
- Shrinking workforce pool

- **Qualitative:**

- “Skills gap”

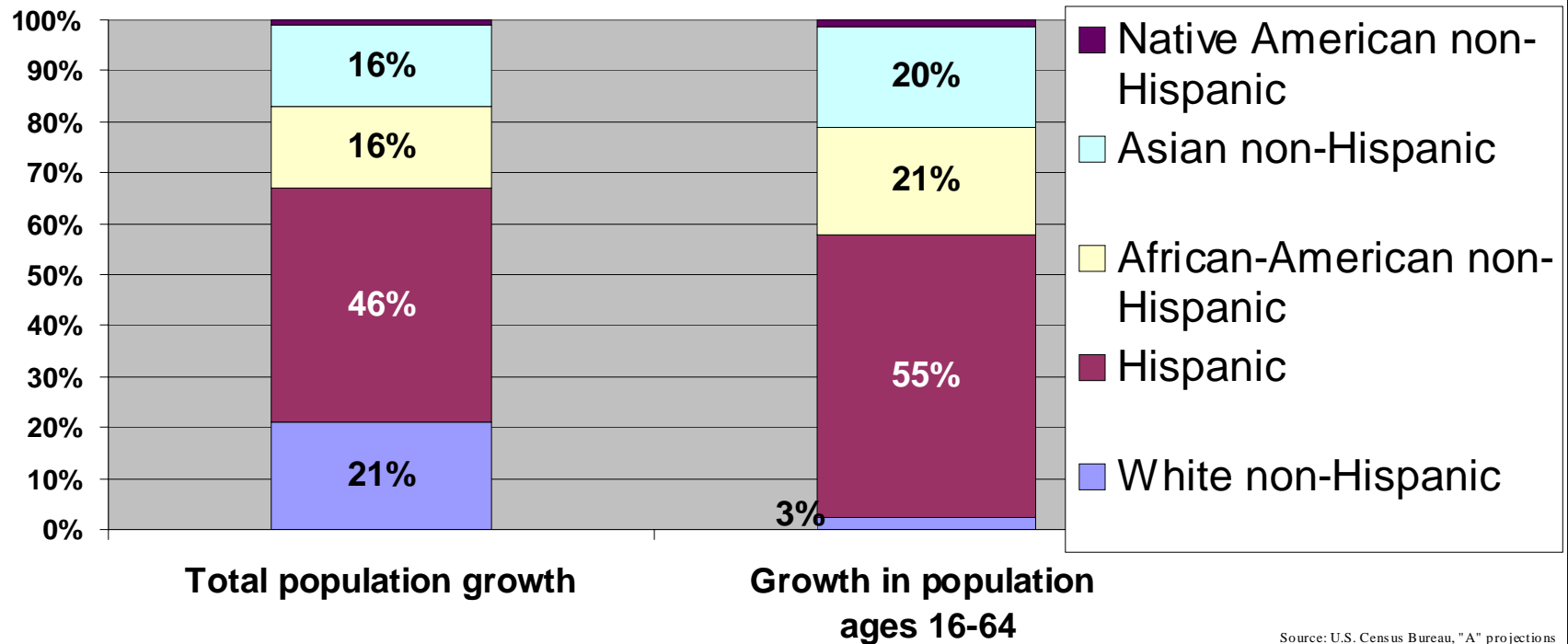
America's Baby Roller Coaster

- About 70 million Baby Boomers
- Only 48 million Generation “Xers”
- And about 57 million in the “Echo” Generation



“Minorities” will account for most U.S. population growth to 2020

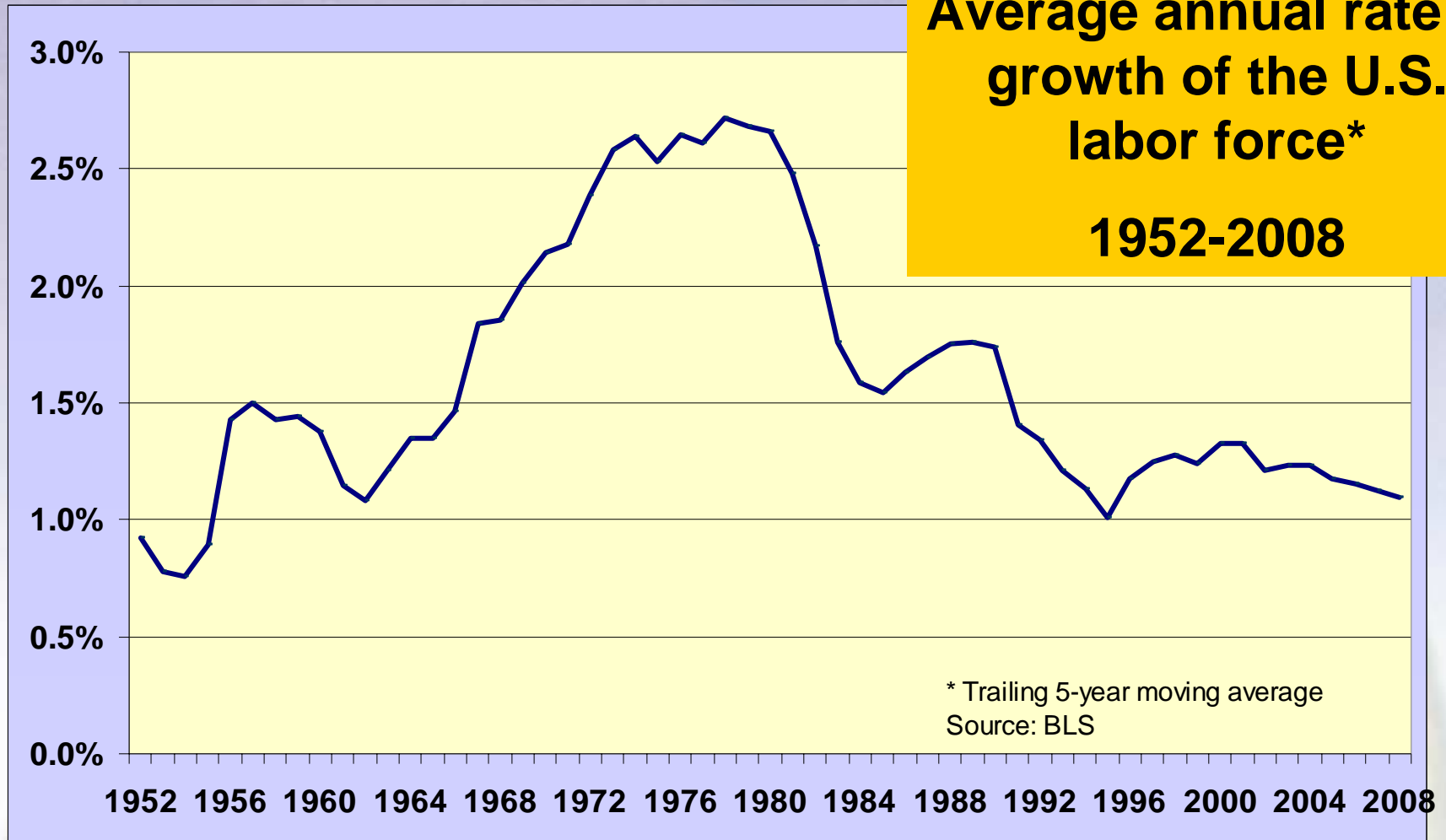
**Percentage Contribution to U.S. Population Growth, 1999-2020,
by ethnic group**



Source: U.S. Census Bureau, "A" projections
<http://www.census.gov/population/www/projections/natdet.html>

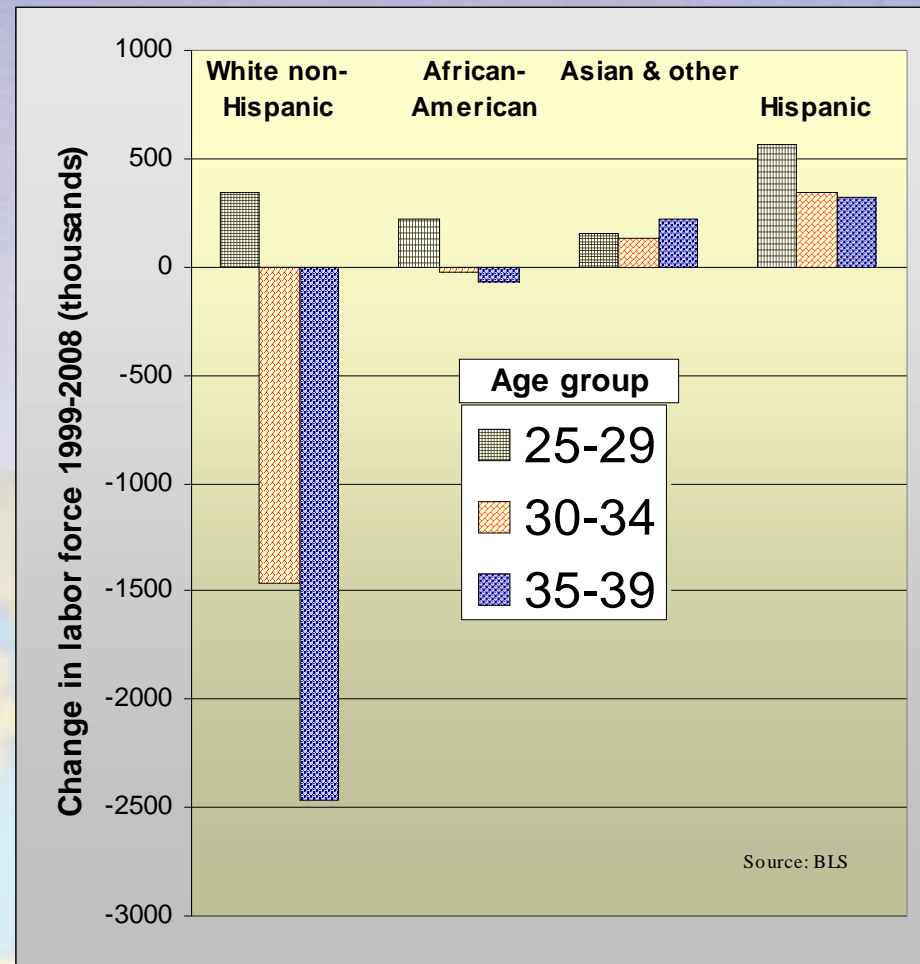
Workforce growth has been trending downward since 1978

**Average annual rate of
growth of the U.S.
labor force*
1952-2008**



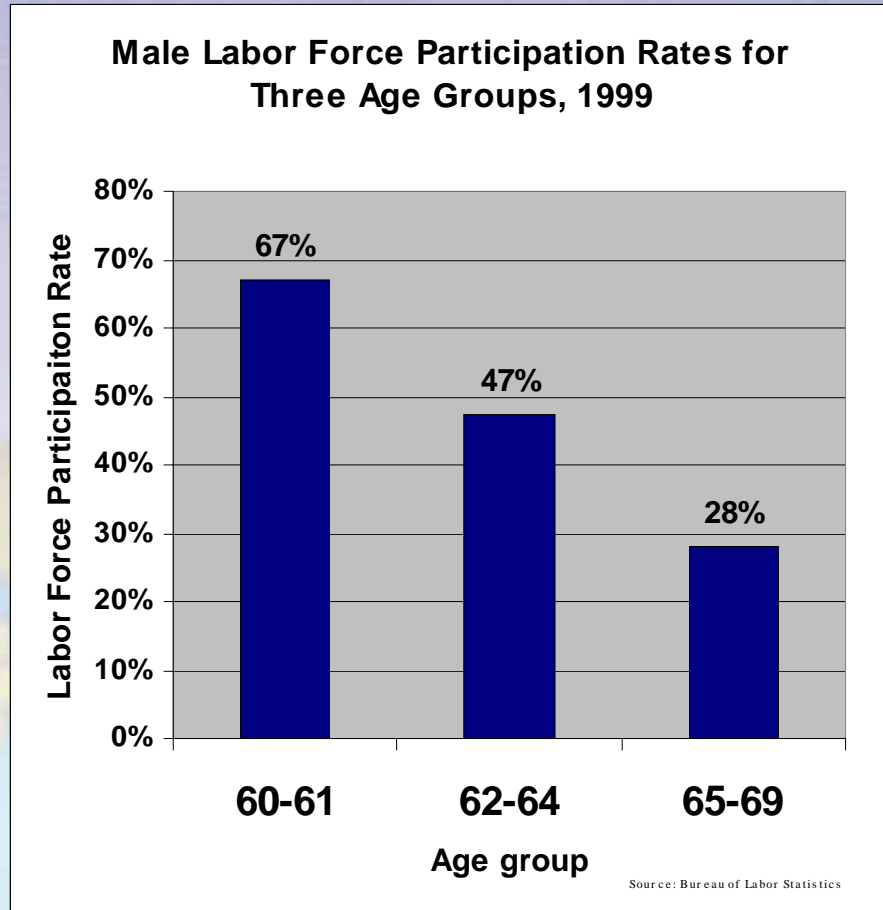
America's Paucity of Younger Workers, 1999-2008

- Whites to decline the most
- Ages 25-40 down by 1.7 million
- Ages 28-29 up by 1.3 million.
- Forty somethings drop by over drop by over 3 million.



The Social Security earnings test slashes labor force participation

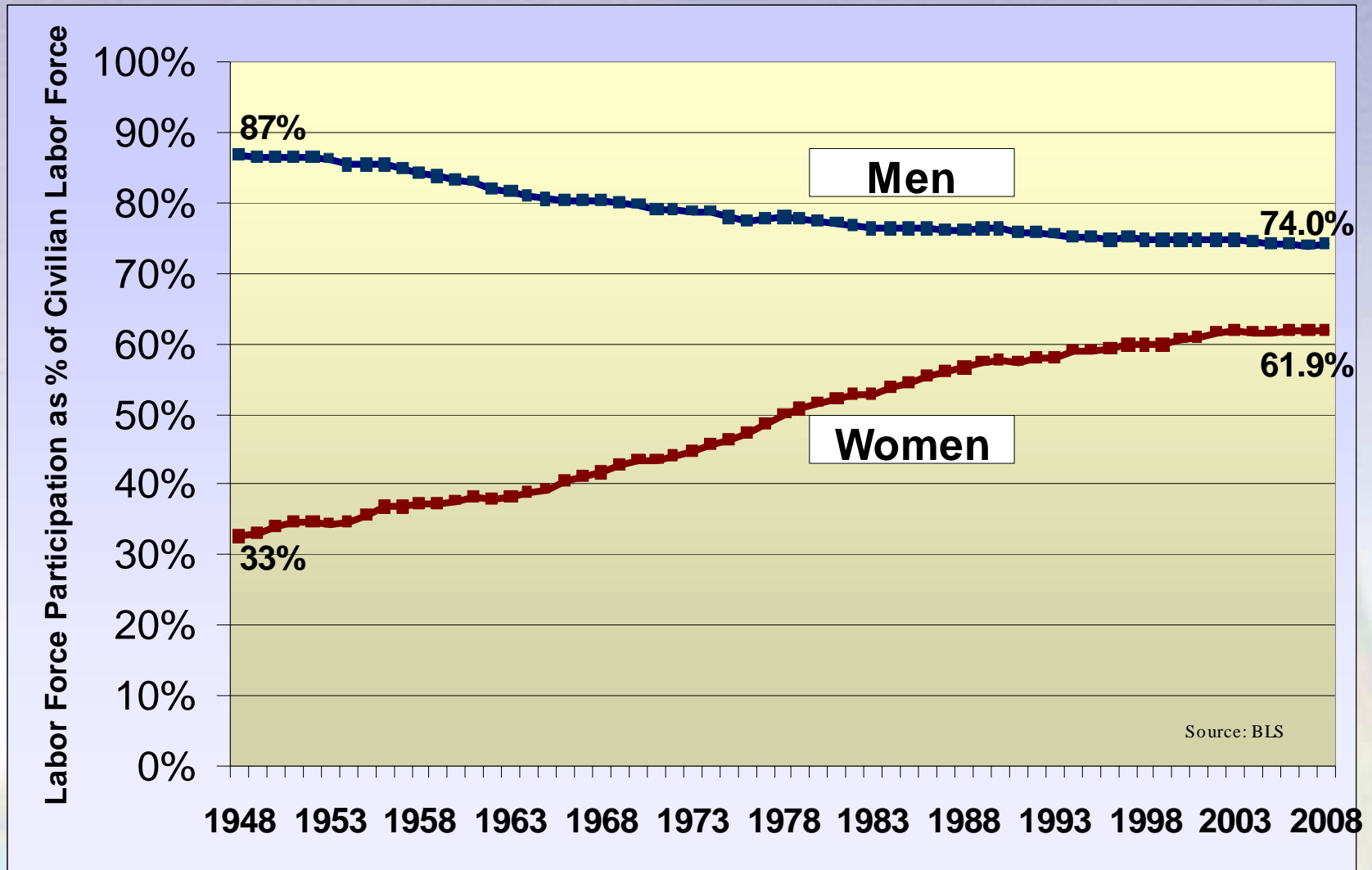
- Over two-thirds of men aged 60-61 are in the labor force.
- **Suddenly, at age 62 (when they become eligible for Social Security but subject to the earnings test), their participation rate drops to 47%.**
- Participation rates plunge again at age 65.



The Social Security earnings test amounts to a very high tax rate

- **Beneficiaries aged 62-64 lose \$1 for every \$2 earned above \$10,080 & those aged 65-69 lose \$1 for every \$3 earned above \$15,000.**
- **That's a 33%-50% tax rate!**
- **Income tax, FICA plus state & local taxes raise the total marginal rate up to 80% to 115%**
- **No wonder the median retirement age has fallen from 65 in the 1970s to 62 today.**

Labor force participation rates are leveling off



Bottom Line: Tight labor markets to continue

- **Some areas will suffer much more than others.**
- **Some occupations and industries will be hurt more than others.**
- **Economic success, by boosting demand for workers, breeds tight labor markets**

The “Skills Gap”

- **Skill requirements are rising rapidly.**
- **Education and training are increasingly important to workplace success.**
- **Fastest-growing parts of America’s labor force lack tradition of formal education.**
- **Too few school leavers have the necessary attitudes, skills & skills.**

Recommendations

- **Abolish Social Security earnings limit.**
- **Replace the federal income tax with a federal consumption tax.**
- **Reform immigration policy.**
- **Ensure greater choice in education.**
- **Monitor & evaluate the implementation of the Workforce Investment Act of 1988.**

Thanks very much!

Richard W. Judy

Hudson Institute

317-841-0133

dickjudy@hudson.org